

1. What does it mean to file water's edge return?

Montana is a worldwide combined state. This means that Montana has the ability to tax all of a multi-national corporation's income, even income earned by subsidiaries incorporated outside the United States. If a corporation makes a valid water's edge election, the corporation may exclude income earned by subsidiaries incorporated outside the United States (with the exception of subsidiaries incorporated in a tax haven). Essentially this election allows a corporation to report only that income earned by domestically incorporated subsidiaries. As part of the election, the corporation agrees to a 7% tax rate versus a 6.75% tax rate.

2. Have any other states enacted similar rules or statutes as are being proposed?

Utah, Idaho and California have enacted legislation to include all domestically incorporated subsidiaries in the water's edge group – as we are currently proposing to do.

Oregon and Illinois have both enacted legislation that provides for the inclusion of income from intangibles or service related activities if that income is paid by a member of the water's edge group to a unitary corporation that is not a member of the water's edge group. This helps to eliminate the effect of income manipulation. The current bill proposes language similar to Oregon and Illinois.